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STAFF MEMORANDUM NO. 268

SUBJECT: Current Position of the Netherlands

(This memo is for the background information of the Board.)

1. The recent Dutch elections do not presage much change in the traditionally stable government or in national policy. The remarkable economic recovery achieved since 1948, the outgoing cabinet's successful anti-inflation measures, and generally favorable economic prospects all tended to prevent any radical shift in the electorate. There was, however, a modest increase in Labor Party strength which will influence the new government toward greater concern with internal matters and will almost certainly contribute toward a continuing lag in defense expenditure. Socialist influence probably will also dictate a more cautious Dutch approach to Western European military and political integration.

2. Economic Background to the Elections. Despite excellent progress in the restoration of war damaged industry and an annual increase of 12 percent in industrial production from 1948 to 1951, the Netherlands was faced with an acute balance of payments deficit early last year. The Drees cabinet formed in March 1951 dealt with this crisis by pursuing a policy aimed at restoring monetary equilibrium through: (a) raising the discount rate; (b) decreasing consumption by 5 percent; (c) reducing capital investment by 25 percent; (d) higher taxes on corporate and private incomes; and (e) cuts in consumer subsidies. An improvement in terms of trade and the continuing deflationary influence of US assistance combined to aid the government program and sharply reduce the over-all Dutch payments deficit. In view of the improving Dutch financial position, the government relaxed its deflationary policy in the first half of this year.

3. Election Results. The June elections resulted in an unexpected increase in Socialist strength. The Labor Party gained three additional Second Chamber seats, giving it numerical equality with the Catholic People's Party (KVP), which lost two seats. Labor's

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gains were largely attributable to: (a) the vigorous campaign waged by moderate socialist Premier Drees, who ably identified his party with the recent economic successes; (b) popular desire for increased social welfare measures; (c) dissension in the KVP, especially in its labor ranks; and (d) the unfavorable impact on the Communists of a seasonably higher level of employment. Despite the minor drain of strength from the center, the Second Chamber election results reveal no clear-cut trend to right or left.

4. It is significant that religious interests had less effect on the popular vote than in previous elections. The two major parties which are strongly religious in nature, the KVP and the Anti-Revolutionary Party, lost most heavily in percentage of popular votes. Their outlook appeared ill-adjusted to the material desires of increasingly influential laboring class voters. Secular issues may contribute to a further diminution of religious party strength so long as the Labor Party retains its moderate character, and if the KVP caters to its conservative rather than trade union elements.

5. The Coalition Cabinet. A cabinet has just been formed under Premier Drees after two months of political maneuvers. Since the KVP and Labor Party have the same numerical representation as in the outgoing cabinet, the negotiations appear to have denied the latter the fruits of its election gains. However, the KVP representatives as a whole are not as experienced as those of Labor. Furthermore, while a Catholic Minister Without Portfolio is to exercise "joint responsibility" for foreign policy with non-party Foreign Minister Beijen, he is likely to play a subordinate role. These factors and the intra-party strife of the past two months will cause friction in the new cabinet, which probably will be neither as capable nor long-lived as its predecessor.

6. Probable Internal Economic Policy. The government program, to be announced on 16 September, probably will contain little change from previous policy. Nevertheless, increased Labor influence will almost certainly mean that the recent trend toward less governmental control of the economy will be slowed, if not halted. Particular emphasis will be given to the need for increased social welfare measures and for greater efforts to reduce unemployment. Each of the two major parties has recognized greater laboring class strength in the electorate by appointing a trade union leader to the cabinet.

7. Economic Outlook. Dutch economic prospects remain generally favorable. It is expected that the over-all balance of payments on

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current account for 1952-1953 will tend to equilibrium. Increased productivity in export industries may bring a modest surplus in the following year. The Netherlands almost certainly will meet the OEEC objective of a 25 percent rise in production between 1951 and 1956, since the industrialization program is just beginning to hit its stride.

8. On the other hand, there is still a serious dollar problem; the 1952-1953 dollar deficit is estimated at about \$150 million. Overconcentration of trade with the UK, France, and Germany also endangers equilibrium in the balance of payments. The adoption of further deliberalization measures by the British and French could severely damage the Netherlands export trade. Barring such a development and any major deviation from past policy, however, the Dutch economy will probably remain on a sound basis and not require US economic aid in 1953-1954.

9. Defense Program. The Drees cabinet raised the 1951 defense budget to \$394 million, an increase (at 1951 prices) from 4.2 percent to 7.5 percent of the GNP. An equal amount is to be committed for each of the three succeeding years. However, there has been a gap between the allocation and actual expenditure of funds. This discrepancy is slated to be remedied by greater outlays during the next several months, but such action may be retarded by increased Labor Party influence. The Socialists, although agreeing to the defense program after firm assurances of US aid, have displayed no sense of urgency concerning the need for rearmament, and Drees has expressed his determination not to permit the defense effort to interfere with the strengthening of the economy.

10. Foreign Policy. Despite certain reservations, the Netherlands has participated fully in European integration programs. There has been a notable absence of the anti-US feelings common elsewhere in Western Europe. There is, however, a strong possibility that the new cabinet will take a more cautious approach to Western European integration. The Socialists in particular are concerned with preservation of the Netherlands standard of living within the framework of integration, and Drees is convinced that military and political unification can only be obtained through successful economic integration.

11. Basically, the Dutch feel that NATO provides the real bulwark for the defense of Western Europe, but Netherlands officials have recently shown great uneasiness regarding the country's position in

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Allied defense plans. The Dutch suspect that the French favor defending "fortress France" and abandoning the area north of the Rhine. This attitude will probably persist, despite SHAPE assurances to the contrary. For this reason, among others, the Netherlands may be expected to stress further the need for greater participation of the small nations in NATO planning.

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they continue to insist that the terms of the EDC should be made to coincide with that of NATO, and thus with the period of US-UK guarantees. Moreover, the Dutch are apprehensive lest British troops be withdrawn from Germany because of West Germany inability to finance both Allied and German units. Dutch EDC ratification promises to be an arduous process unless those issues are more fully resolved.

13. Netherlands New Guinea. Public disinterest in the NNG issue was reflected in the election results. The problem will probably remain in the background, at least for the duration of 1952, despite the likelihood of resumed negotiations with Indonesia. Those political groups which adopted an extremist position in 1951 will almost certainly lack their former ability to transform the NNG issue into a cause célèbre.

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